

Unit 3 Income Tax

3.1 Taxable Income

9/22/14

Finalize 2.10.2 and your Unit 2 test
and turn them in if you have not already
done so.

3.1 Taxable Income

9/22/14

Finalize your Budget Project spreadsheet and

- Excel - e-mail it to *michael_melosh@dpsk12.net*
- Google doc - share the document with
michael_melosh@dpsk12.net

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status. I will capture my thinking using the math note catcher including teacher and student-team modeled example problems on the Promethean board. I will demonstrate my understanding on my exit ticket.

3.1 Taxable Income

9/22/14

What is taxable income? Taxable income =
Gross income
- adjustments
- deductions
- exemptions

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status.

3.1 Taxable Income

9/22/14

W-4

Form **W-4** Employee's Withholding Allowance Certificate
Department of the Treasury Internal Revenue Service
OMB No. 1545-0047
2010

1 Type or print your first name and middle initial. Last name
Home address (number and street or rural route)
City or town, state, and ZIP code

2 Your social security number

3 ☐ Single ☐ Married ☐ Married, but withheld at higher Single rate.
Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.

4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ☐

5 Total number of allowances you are claiming (from line 3 above or from the applicable worksheet on page 2) 5
6 Additional amount, if any, you want withheld from each paycheck 6 \$
7 I claim exemption from withholding for 2010, and I certify that I meet both of the following conditions for exemption.
a Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and
b This year I expect a refund of all federal income tax withheld because I expect to have no tax liability.
If you meet both conditions, write "Exempt" here 7

8 Employee's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS)
9 Office code (optional)
10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form W-4 (2010)

Item 5: Write in the number of allowances you are claiming. Usually, you claim one allowance each for yourself, your spouse, and any person who depends on you for economic support. Many single people put a 0 here rather than a 1. This is because a larger number here means less will be deducted from each paycheck you receive. However, you will have to pay more when you file your taxes.

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status.

3.1 Taxable Income

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W-2

22222		a. Employee's social security number		OMB No. 1545-0048			
b. Employer identification number (EIN)				1. Wages, tips, other compensation		2. Federal income tax withheld	
c. Employer's name, address, and ZIP code				3. Social security wages		4. Social security tax withheld	
				5. Medicare wages and tips		6. Medicare tax withheld	
				7. Social security tips		8. Allocated tips	
d. Control number				9. Advance EIC payment		10. Dependent care benefits	
e. Employee's first name and initial Last name Suffix				11. Nonqualified plans		12a. <input type="checkbox"/> Health plan	
				13. <input type="checkbox"/> Mandatory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party salary		12b. <input type="checkbox"/> Health plan	
				14. Other		12c. <input type="checkbox"/> Health plan	
						12d. <input type="checkbox"/> Health plan	
f. Employee's address and ZIP code							
15. State Employer's state ID number		16. State wages, tips, etc.		17. State income tax		18. Local wages, tips, etc.	
						19. Local income tax	
						20. Locality name	
Form W-2 Wage and Tax Statement		2010		Department of the Treasury—Internal Revenue Service			
Copy 1—For State, City, or Local Tax Department							

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status.

3.1 Taxable Income

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Filing status

Filing status	Description
Single	Generally, a single person is someone who is unmarried, divorced, or legally separated from his or her spouse.
Married filing jointly	This is for married people who are filing a single tax return. It is not dependent on how long you have been married. If you are married on December 31 of the previous year, you are able to file as married filing jointly.
Married filing separately	This is for someone who is legally married but who chooses to file separately from his or her spouse.
Head of household	This is for someone who is unmarried and has paid more than half of the cost of keeping up a home for him- or herself and for another relative. The relative must live with the head of household for more than half the year and must claim to be his or her dependent. Some examples of dependents are children, stepchildren, grandchildren, and stepgrandchildren.

Exemptions (2009 values)

Status	Exemption
Single	\$3650
Single with dependents	$\$3650 + \$3650 \bullet (\# \text{ of dependents})$
Married with no dependents	\$7300
Married with dependents	$\$7300 + \$3650 \bullet (\# \text{ of dependents})$

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status.

3.1 Taxable Income

9/22/14

The standard deduction is based only on your filing status, not on your income. It generally increases year-over-year.

If line 43 (taxable income) is —		And you are —			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
32,000		Your tax is —			
32,000	32,050	4,386	3,969	4,386	4,206
32,050	32,100	4,394	3,976	4,394	4,214
32,100	32,150	4,401	3,984	4,401	4,221
32,150	32,200	4,409	3,991	4,409	4,229
32,200	32,250	4,416	3,999	4,416	4,236
32,250	32,300	4,424	4,006	4,424	4,244
32,300	32,350	4,431	4,014	4,431	4,251
32,350	32,400	4,439	4,021	4,439	4,259
32,400	32,450	4,446	4,029	4,446	4,266
32,450	32,500	4,454	4,036	4,454	4,274
32,500	32,550	4,461	4,044	4,461	4,281
32,550	32,600	4,469	4,051	4,469	4,289
32,600	32,650	4,476	4,059	4,476	4,296
32,650	32,700	4,484	4,066	4,484	4,304
32,700	32,750	4,491	4,074	4,491	4,311
32,750	32,800	4,499	4,081	4,499	4,319
32,800	32,850	4,506	4,089	4,506	4,326
32,850	32,900	4,514	4,096	4,514	4,334
32,900	32,950	4,521	4,104	4,521	4,341
32,950	33,000	4,529	4,111	4,529	4,349

Year	Filing Status			
	Single	Married filing jointly	Married filing separately	Head of household
2009	\$5700	\$11,400	\$5700	\$8350
2008	\$5450	\$10,900	\$5450	\$8000
2007	\$5350	\$10,700	\$5350	\$7850
2006	\$5150	\$10,300	\$5150	\$7,550

Taxable income table: shows how much you owe in taxes based on your taxable income

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status.

3.1 Taxable Income

9/23/14

Vocabulary: Appendix A.3 Key Terms

Practice: 3.1.2

Quiz 3.1.3

IWBAT explore the W-2 and W-4 tax forms, make calculations based on the standard deduction and exemptions, and consider issues surrounding filing status.

3.2 Itemized Deductions

9/25/14

Determine tax burden given a filer's: status, deduction(s), income, and exemption(s)

Juliana is filing head of household, claims three exemptions, and has an annual income of \$102,901.

How much in federal taxes does Juliana owe?

If line 43 (taxable income) is —		And you are —			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
Your tax is —					
83,000					
83,000	83,050	16,967	13,131	17,379	15,609
83,050	83,100	16,981	13,144	17,393	15,621
83,100	83,150	16,995	13,156	17,407	15,634
83,150	83,200	17,009	13,169	17,421	15,646
83,200	83,250	17,023	13,181	17,435	15,659
83,250	83,300	17,037	13,194	17,449	15,671
83,300	83,350	17,081	13,206	17,463	15,684
83,350	83,400	17,065	13,219	17,477	15,696
83,400	83,450	17,079	13,231	17,491	15,709
83,450	83,500	17,093	13,244	17,505	15,721
83,500	83,550	17,107	13,256	17,519	15,734
83,550	83,600	17,121	13,269	17,533	15,746
83,600	83,650	17,135	13,281	17,547	15,759
83,650	83,700	17,149	13,294	17,561	15,771
83,700	83,750	17,163	13,306	17,575	15,784
83,750	83,800	17,177	13,319	17,589	15,796
83,800	83,850	17,191	13,331	17,603	15,809
83,850	83,900	17,205	13,344	17,617	15,821
83,900	83,950	17,219	13,356	17,631	15,834
83,950	84,000	17,233	13,369	17,645	15,846

3.2 Itemized Deductions

9/25/14

Understand the concept of adjusted gross income.

Total taxable income = Total pay – adjustments – deductions – exemptions

Total taxable income = AGI – deductions – exemptions.

AGI = total pay - adjustments

IWBAT explore common types of itemized deductions, and decide between taking the standard deduction or itemizing deductions. I will capture my thinking using the math note catcher including teacher and student-team modeled example problems on the Promethean board. I will demonstrate my understanding on my exit ticket.

3.2 Itemized Deductions





9/25/14

IRS-defined expenses that can be deducted from a person's income to reduce his or her taxable income.

Total taxable income = **Total pay – adjustments** – deductions – exemptions

Total taxable income = **AGI** – deductions – exemptions.

Allowable
adjustments
include:

Individual Retirement Accounts (IRAs)	
Alimony Paid	
Bad Debt Deduction	
Moving Expenses	
Student Loan Interest Deduction	
Tuition and Fees Deduction	
Educator Expense Deduction	

IWBAT explore common types of itemized deductions, and decide between taking the standard deduction or itemizing deductions.

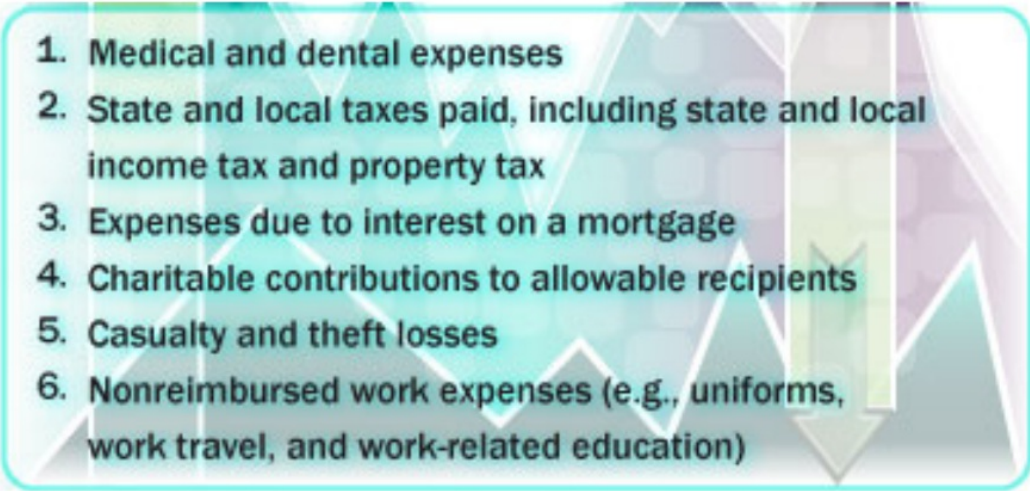
3.2 Itemized Deductions

9/25/14

1040EZ

1040/1040A

Standard deduction

- 
1. Medical and dental expenses
 2. State and local taxes paid, including state and local income tax and property tax
 3. Expenses due to interest on a mortgage
 4. Charitable contributions to allowable recipients
 5. Casualty and theft losses
 6. Nonreimbursed work expenses (e.g., uniforms, work travel, and work-related education)

IWBAT explore common types of itemized deductions, and decide between taking the standard deduction or itemizing deductions.

3.2 Itemized Deductions

9/25/14

Medical expenses are deductible to the extent that the expenses exceed 7.5% of the taxpayer's adjusted gross income.

When a taxpayer pays taxes to his state or another municipality, the IRS allows the taxpayer to deduct 100% of that money from his or her taxable income.

The IRS allows people to deduct 100% of their mortgage interest from their income.

IWBAT explore common types of itemized deductions, and decide between taking the standard deduction or itemizing deductions.

3.2 Itemized Deductions

9/25/14

The IRS limits the deduction for charitable contributions to 50% of your adjusted gross income (AGI). Any contributions beyond 50% of your AGI cannot be deducted that year (but can be carried over into future years for up to five years).

Losses due to theft can be deducted if

- the amount lost is more than \$500
- the amount lost minus \$500 is more than 10% of your adjusted gross income (AGI).

IWBAT explore common types of itemized deductions, and decide between taking the standard deduction or itemizing deductions.

3.2 Itemized Deductions

9/25/14

Expenses related to work (for example, uniforms, work-travel that is not part of your daily commute, and work-related education) are deductible only when they are not reimbursed. A taxpayer can only deduct the amount of nonreimbursed work expenses that exceed 2% of his or her adjusted gross income (AGI).

Summary

DEDUCTION	REQUIREMENT
Medical and dental	Deduct the amount by which the expenses exceed 7.5% of your AGI.
State and local taxes	Deduct 100%.
Mortgage interest	Deduct 100%.
Charitable contributions	Deduct up to 50% of your AGI.
Theft losses	Deduct losses minus \$500 if they're over 10% of your AGI.
Casualty losses	Deduct 100%.
Nonreimbursed work expenses	Deduct the amount by which the expenses exceed 2% of your AGI.

Vocabulary: Appendix A.3 Key Terms

Practice: 3.2.2

Quiz 3.2.3

IWBAT explore common types of itemized deductions, and decide between taking the standard deduction or itemizing deductions.

3.3 Tax Brackets

9/29/14

Define Adjusted Gross Income
in your own words.

$$A G I = \text{gross Income} - \text{Adjustments}$$

Allowable Adjustments include

- Medical
- State/local taxes
- Charitable contr.
- Mortgage Int.
- Casualty/Theft losses

3.3 Tax Brackets

9/29/14

Understand the tax bracket system.

If line 43 (taxable income) is —		And you are —			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
Your tax is —					
83,000					
83,000	83,050	16,967	13,131	17,379	15,609
83,050	83,100	16,981	13,144	17,393	15,621
83,100	83,150	16,995	13,156	17,407	15,634
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83,600	83,650	17,135	13,281	17,547	15,759
83,650	83,700	17,149	13,294	17,561	15,771
83,700	83,750	17,163	13,306	17,575	15,784
83,750	83,800	17,177	13,319	17,589	15,796
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83,900	83,950	17,219	13,356	17,631	15,834
83,950	84,000	17,233	13,369	17,645	15,846

IWBAT perform calculations involving tax brackets and filing statuses and consider differences in tax due to salary increases or competing job offers. I will capture my thinking using the math note catcher including teacher and student-team modeled example problems on the Promethean board. I will demonstrate my understanding on my exit ticket.

3.3 Tax Brackets

9/29/14

The Internal Revenue Service (IRS) uses six tax brackets to determine the amount of tax you owe due to your taxable income and filing status.

Single			Married filing jointly		
Taxable income is over	But not over	Bracket	Taxable income is over	But not over	Bracket
\$0	\$8350	10%	\$0	\$16,700	10%
\$8350	\$33,950	15%	\$16,700	\$67,900	15%
\$33,950	\$82,250	25%	\$67,900	\$130,050	25%
\$82,250	\$171,550	28%	\$130,050	\$208,850	28%
\$171,550	\$325,950	33%	\$208,850	\$372,950	33%
\$325,950		35%	\$372,950		35%

IWBAT perform calculations involving tax brackets and filing statuses and consider differences in tax due to salary increases or competing job offers.

3.3 Tax Brackets

9/29/14

Not all of your taxable income is taxed at the same level.

Single				
Taxable income is over	But not over	The tax is	Plus	Of the amount over
\$0	\$8350	\$0.00	10%	\$0
\$8350	\$33,950	\$835.00	15%	\$8350
\$33,950	\$82,250	\$4,675.00	25%	\$33,950
\$82,250	\$171,550	\$16,750.00	28%	\$82,250
\$171,550	\$372,950	\$41,754.00	33%	\$171,550
\$372,950		\$108,216.00	35%	\$372,950

$$\begin{aligned}
 \$4675.00 + 0.25 (\$42,000 - \$33,950) &= \$4675 + 0.25(\$8050) \\
 &= \$4675 + \$2012.50 \\
 &= \$6687.50
 \end{aligned}$$

Single				
Taxable income is over	But not over	The tax is	Plus	Of the amount over
\$0	\$8350	\$0.00	10%	\$0
\$8350	\$33,950	\$835.00	15%	\$8350
\$33,950	\$82,250	\$4,675.00	25%	\$33,950
\$82,250	\$171,550	\$16,750.00	28%	\$82,250
\$171,550	\$372,950	\$41,754.00	33%	\$171,550
\$372,950		\$108,216.00	35%	\$372,950

IWBAT perform calculations involving tax brackets and filing statuses and consider differences in tax due to salary increases or competing job offers.

3.3 Tax Brackets

9/29/14

Married filing jointly


Taxable income is over	But not over	The tax is	Plus	Of the amount over
\$0	\$16,700	\$0.00	10%	\$0
\$16,700	\$67,900	\$1670.00	15%	\$16,700
\$67,900	\$137,050	\$9350.00	25%	\$67,900
\$137,050	\$208,850	<u>\$26,637.50</u>	28%	\$137,050
\$208,850	\$372,950	\$46,741.50	33%	\$208,850
\$372,950		\$100,894.50	35%	\$372,950

What is the tax owed by this couple?

\$ 31,758.70

Submit

Total taxable income

 **\$155,340**

$$(155340 - 137050) \cdot 28 + 26637.50 = \$31,758.70$$

$$(1670 + 7680 + 17287.50)$$

1 2 3

IWBAT perform calculations involving tax brackets and filing statuses and consider differences in tax due to salary increases or competing job offers.

3.3 Tax Brackets

9/29/14

Formula for calculating taxes:

base amount + (%tax rate) (taxable income - lower bracket)

Single				
Taxable income is over	But not over	The tax is	Plus	Of the amount over
\$0	\$8350	\$0	10%	\$0
\$8350	\$33,950	\$835	15%	\$8350
\$33,950	\$82,250	\$4675	25%	\$33,950
\$82,250	\$171,550	\$16,750	28%	\$82,250
\$171,550	\$372,950	\$41,754	33%	\$171,550
\$372,950		\$108,216	35%	\$372,950

You earn \$42,195 (T.I.) and receive a 3.4% Cost of Living Adjustment (COLA). How much more in taxes do you now owe compared to last year?

$$42195(1.034) = 43629.63$$

$$(43629.63 - 33950) \cdot 25 - (42195 - 33950) \cdot 25 =$$

$$(9679.63) \cdot 25 - (8245) \cdot 25 =$$

$$2419.91 - 2061.25 = \$358.66$$

IWBAT perform calculations involving tax brackets and filing statuses and consider differences in tax due to salary increases or competing job offers.

3.3 Tax Brackets

9/29/14

Apex 3.3.1 p.10 Slides 1 & 2

Vocabulary: Appendix A.3 Key Terms

Practice: 3.3.2

Quiz 3.3.3

IWBAT perform calculations involving tax brackets and filing statuses and consider differences in tax due to salary increases or competing job offers.

3.4 Submitting Your Tax Form

9/30/14

Explain the tax bracket system in your own words.

3.4 Submitting Your Tax Form

9/30/14

Understand which tax form to use when itemizing deductions.

1040EZ

Standard
Deduction

1040

Standard
or
Itemized
Deductions

3.4 Submitting Your Tax Form

9/30/14

IWBAT fill out a 1040EZ and compare the 1040EZ to the regular 1040 form. I will capture my thinking using the math note catcher including teacher and student-team modeled example problems on the Promethean board. I will demonstrate my understanding on my exit ticket.

3.4 Submitting Your Tax Form

9/30/14

1040EZ

- No adjustments
- No itemizing (standard deduction only)
- Taxable income < \$100,000
- No dependents
- Single or Married-filing-jointly only

IWBAT fill out a 1040EZ and compare the 1040EZ to the regular 1040 form.

3.4 Submitting Your Tax Form

1040EZ sections (Apex 3.4.1 p. 3)

9/30/14

Income (W-2 & 1099-INT)

Income Attach Form(s) W-2 here. Enclose, but do not attach, any payment.	1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1
	2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2
	3	Unemployment compensation in excess of \$2,400 per recipient and Alaska Permanent Fund dividends (see page 11).	3
	4	Add lines 1, 2, and 3. This is your adjusted gross income.	4
	5	If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$9,350 if single ; \$18,700 if married filing jointly. See back for explanation.	5
	6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income.	6

You may benefit from filing Form 1040A or 1040. See Before You Begin on page 4.

IWBAT fill out a 1040EZ and compare the 1040EZ to the regular 1040 form.

3.4 Submitting Your Tax Form

9/30/14

Payments, Credits, and Tax	7	Federal income tax withheld from Form(s) W-2 and 1099.	7
	8	Making work pay credit (see worksheet on back).	8
	9a	Earned income credit (EIC) (see page 13).	9a
	b	Nontaxable combat pay election. 9b	
	10	Add lines 7, 8, and 9a. These are your total payments and credits .	10
	11	Tax. Use the amount on line 6 above to find your tax in the tax table on pages 27 through 35 of the instructions. Then, enter the tax from the table on this line.	
Refund <small>Have it directly deposited! See page 18 and fill in 12b, 12c, and 12d or Form 8888.</small>	12a	If line 10 is larger than line 11, subtract line 11 from line 10. This is your refund . If Form 8888 is attached, check here <input type="checkbox"/>	12a
	b	Routing number <input type="text"/>	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
	d	Account number <input type="text"/>	
	13	If line 11 is larger than line 10, subtract line 10 from line 11. This is the amount you owe . For details on how to pay, see page 19.	13
Amount you owe			

If you cannot file on time (usually April 15), you may ask for an extension of six months. This is an extension to file, not to pay. You will pay interest on any money you owe to the IRS. If you cannot pay, you can enter into a payment plan.

Celebrity tax evaders.

IWBAT fill out a 1040EZ and compare the 1040EZ to the regular 1040 form.

3.4 Submitting Your Tax Form

9/30/14

Comparing the 1040EZ to the 1040

1040	1040EZ
Itemized deductions allowed	Only standard deduction allowed
Adjustments allowed	No dependents
Claiming dependents allowed	No adjustments allowed
No restriction on filing status	Taxable income needs to be less than \$100,000
	Filing status must be Single or Married filing jointly

IWBAT fill out a 1040EZ and compare the 1040EZ to the regular 1040 form.

3.4 Submitting Your Tax Form

9/30/14

Vocabulary: Appendix A.3 Key Terms

Practice: 3.4.2

Quiz 3.4.3

IWBAT fill out a 1040EZ and compare the 1040EZ to the regular 1040 form.

3.5 Unit Test

10/01/14

Review for the Unit 3 Test.
Complete Practice 3.5.2.

Complete Unit Test 3.5.4 (CST).